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ABSTRACT

Poverty has risen faster in recent years under measures of poverty that include the value of non-cash benefits. The Census Bureau recently issued nine measures of poverty which make the poverty population appear unrealistically small. In summary, these measures do the following: (1) count non-cash benefits because they include household purchasing power but fail to exclude taxes that are withheld from earnings and reduce purchasing power; (2) compare income including non-cash benefits to a poverty threshold based on cash income only; and (3) in the case of the two measures showing the lowest numbers of people in poverty, assign such high values to Medicare and Medicaid that many of the elderly poor are considered to be above the poverty line, even if they have virtually no income for other necessities. The report points out the most serious problems with current poverty measures and it analyzes the use of non-cash benefits in terms of its distorting effects on poverty indicators and thresholds. (PS)

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CENTER ON BUDGET AND POLICY PRIORITIES

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POVERTY RISES FASTER WHEN NON-CASH BENEFITS COUNTED

Poverty has risen considerably faster in recent years under measures of poverty that include the value of non-cash benefits than under the official measure of poverty (which does not include non-cash benefits), according to an analysis by the Center on Budget and Policy Priorities of new Census data released today.

From 1979 to 1985, the number of poor people rose 27 percent under the official definition of poverty but 33 to 43 percent under the Census Bureau's nine alternative measures of poverty that include the value of non-cash benefits. The alternative measures of poverty cover all years since 1979.

"Poverty has risen faster under the measures of poverty that include non-cash benefits because of cuts made in the non-cash programs," the Center's analysis said.

"In some of these programs, benefits failed to keep pace with high inflation rates in the late 1970's and early 1980's, while the federal budget cuts of the 1980's aggravated this situation by making significant reductions in a number of non-cash programs for the poor.

"The new data confirm that reductions in these programs have increased poverty in the U.S., and that these programs are now lifting fewer people out of poverty," Center Director Robert Greenstein noted.

Serious Flaws in Poverty Estimates

The Center's analysis also noted that while the measures of poverty that count non-cash benefits are useful in providing a consistent measure of poverty trends since 1979, these measures are of questionable value in determining the number of people who are poor. A conference of experts convened by the Census Bureau last December to assess these non-cash measures of poverty warned that all nine Census measures had flaws and should be used with caution. The General Accounting Office warned, in testimony last year, that "[there are] a number of areas in which the procedures used for each valuation technique may be subject to technical errors and may have a distorting influence on poverty indicators and thresholds. These errors could affect the poverty classification...of large numbers of individuals and families."

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According to the Center, the most serious problems with these poverty measures include:

- Under the non-cash measure of poverty that produces the lowest poverty rate, so high a value is given to Medicare and Medicaid coverage that every elderly individual with these benefits in 40 states, and every elderly couple with these benefits in all 50 states, are automatically considered to be above the poverty line. In New York State, every elderly individual with Medicare and Medicaid coverage is considered as having $13,100 in income just from this health care coverage.

- Under the non-cash poverty measure that produces the second lowest poverty rate, Medicare and Medicaid receive so high a value that, in the average state, all elderly individuals enrolled in these programs are considered to be above the poverty line if they have just $39 a week for food, housing, clothing, and all other necessities. Elderly couples in the average state are considered to be above the poverty line if they have $3.75 a week to live on.

- As a result, these two measures of poverty (the measures that value Medicare and Medicaid at "market value") show the elderly poverty rate to be an unrealistically low three percent. This estimate has little merit and should not be used.

- In addition, the conference of experts convened by the Census Bureau reached a general consensus that the poverty count should be based on household earnings after taxes, rather than on pre-tax income as is now done. If non-cash benefits are counted because they increase household purchasing power and disposable income, then taxes that are withheld from income and that reduce purchasing power and disposable income must be subtracted.

  However, all nine Census non-cash measure released today count non-cash benefits but fail to subtract taxes. Earlier Census estimates show that if after-tax rather than pre-tax earnings are used, the number of people in poverty is increased by more than 2 million people.

- The experts at the Census Bureau's conference also advised that if non-cash benefits are counted (particularly medical benefits), then the poverty threshold must be recalculated (and presumably raised). The threshold was developed more than 20 years ago using consumption patterns from the late 1950's and was based on cash income only.

  All nine non-cash measures of poverty issued today mix the counting of non-cash benefits with the same poverty threshold that is used in the official definition of poverty and that is based on cash income only.

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Because of these problems, the Center observed, it cannot be concluded that changing to a poverty measure that includes non-cash benefits will substantially reduce the size of the poverty population. Estimates provided by the Census Bureau in 1984 showed that counting food and housing benefits, while using after-tax rather than pre-tax income, resulted in a poverty rate virtually identical to the official poverty rate.

No data is available on the impact of counting medical benefits while adjusting the poverty threshold. Depending on how the benefits are valued and how much the threshold is raised, this could result in a higher or lower poverty count than under the official poverty measure.

The Center also noted that the Census Bureau is now studying possible changes in its methods for measuring poverty if non-cash benefits are counted, as a result of the suggestions and criticism made by those at the conference it convened last year and by other experts.

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ANALYSIS OF POVERTY USING NON-CASH BENEFITS

On October 2, 1986, the Census Bureau released its experimental estimates of the poverty population based on income measures that include the value of non-cash benefits. While serious methodological problems make these estimates of questionable value in determining how many Americans should be considered poor, the estimates do have one particularly useful function: they provide a consistent measure back to 1979 of changes in the size of the poverty population if non-cash benefits are counted.

What this measure shows is that while poverty rates dropped slightly from 1984 to 1985, poverty rates are well above 1979 levels and have risen more rapidly under the experimental measures of poverty that include non-cash benefits than under the official measure of poverty. This demonstrates a decline in the proportion of poor people being lifted out of poverty by the non-cash programs.

Poverty Trends

- From 1979 (the first year for which the Census data are available on poverty measures that include non-cash benefits) to 1985, the number of people in poverty rose 26.8 percent under the official definition of poverty but from 32.8 percent to 42.5 percent under the nine alternative measures that involve counting non-cash income.

- From 1979 to 1985, the poverty rate rose 19.7 percent under the official poverty definition but 24.8 percent to 33.8 percent under the nine non-cash definitions.

- The number of people in poverty rose by 6,992,000 from 1979 to 1985 under the official definition of poverty. Under seven of the nine alternative measures, the number of people in poverty rose by larger amounts.

- The disparities are even more marked for the period from 1980 to 1985. The poverty rate rose at least 50 percent faster under eight of the nine non-cash definitions of poverty as under the official definition of poverty.

Poverty has risen faster under the measures of poverty that include non-cash benefits than under the official poverty definition because of cuts made in the non-cash benefit programs. These cuts have occurred in two ways:

- In some programs, benefits failed to keep pace with inflation, especially during the high inflation years of the late 1970's and early 1980's.

- The federal budget cuts of the early 1980's included significant reductions in a number of non-cash programs.

The new Census data confirm that cuts in these programs have increased poverty in the U.S.

Flaws in the Non-Cash Measures of Poverty

While the alternative definitions of poverty that count non-cash benefits do provide a consistent measure of general poverty trends over time, they are of questionable value in determining the number of people who are poor. In December 1985, the Census Bureau convened a conference in Williamsburg, Virginia at which experts assessed the measurement of non-cash benefits. The experts reached broad agreement that all nine non-cash measures now used by the Bureau are flawed, should be used with caution, and should be regarded as experimental. The General Accounting Office has raised similar concerns, warning that

> "[there are] a number of areas in which the procedures used for each valuation technique may be subject to technical errors and may have a distorting influence on poverty indicators and thresholds. These errors could affect the poverty classification of eligibility of large numbers of individuals and families...consensus has not been established in the publicly available literature about the appropriateness of the Bureau's methods and further evaluation is a necessity."*

Among the most serious problems with the nine non-cash poverty measures are the following:

- Under the two measures of poverty that produce the lowest poverty counts, highly unrealistic values are given to Medicare and Medicaid benefits. Under the measures of poverty, which includes the "market value" of all medical benefits, the value given to Medicare and Medicaid benefits for elderly individuals enrolled in these programs exceeds the poverty line in 40 states. In other words, under this measure of poverty, every elderly individual with Medicare and Medicaid coverage is automatically considered to be above the poverty line in 40 states, regardless of whether the individual has any money at all for food, housing, clothing, or other necessities. In New York State, under this approach, every elderly individual with Medicare and Medicaid is assumed to have $13,100 in income just from this health care coverage.

  In addition, under this approach, every elderly couple with Medicare and Medicaid in all 50 states is automatically considered to be above the poverty line.

  Under the measure of poverty that counts Medicare and Medicaid at "market value" but excludes institutional medical expenditures, the situation is not much better. In the average state, all elderly individuals with Medicare and Medicaid are considered to be above the poverty line if they have only $39 a week for all other

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*Testimony of Eleanor Chelimsky, Director, Program Evaluation and Methodology Division, General Accounting Office, before the House Subcommittee on Census and Population, October 31, 1985.

expenses, while all elderly couples with Medicare and Medicaid are considered to be above the poverty line if they have $3.75 per week to live on.

The excessive valuation of Medicare and Medicaid explains why the elderly poverty rate is shown as being only about three percent under these two measures of poverty (for more information on this issue, see Appendix).

- At the conference of experts convened by the Census Bureau, there was broad agreement that the poverty count should be based on household income after taxes, not on pre-tax income as is done at present. The participants concluded that the true disposable income of a poor household is more accurately reflected when taxes are deducted from a family's income. After tax income should be used in measuring poverty regardless of whether or not the Census Bureau decides to include the value of non-cash benefits, the experts advised.

  However, all nine non-cash poverty measures released on October 2 by the Census Bureau are based on pre-tax income. The measures thus represent a mixture of "apples and oranges" -- it adds government non-cash benefits to income because they increase household purchasing power, but fails to subtract government withholding of taxes, which reduces purchasing power.

  Earlier Census estimates show that if after-tax rather than pre-tax earnings are used, the number of persons in poverty would increase by about 2.5 million.

- Finally, the experts at the Census Bureau's conference believed that if non-cash benefits are included in the calculation of income, and particularly if medical benefits are included, then it is necessary to recalculate the poverty threshold. The threshold was developed more than twenty years ago using consumption patterns evident in the late 1950's and based on cash income only.

  A U.S. Labor Department economist (Mollie Orshansky) constructed the original poverty threshold from two surveys. A consumption survey conducted in the 1950's found that American families spent approximately one-third of their after-tax income on food. In addition, a U.S. Department of Agriculture survey provided data on the cost of a minimal subsistence budget for food. This budget, later known as the Economy Food Plan, was multiplied by three to arrive at the poverty threshold. Starting in 1969, this threshold was adjusted by the overall rise in inflation each year (the first adjustment reflected the change in inflation for the years following the creation of the poverty threshold).

  The consumption patterns of Americans have changed since the late 1950's, however. American households now spend less of their disposable income on food than in the late 1950's and more on energy and housing, reflecting large increases in rent and utility costs. If medical benefits from Medicaid and Medicare are considered part of disposable income, then poor households also spend a much larger proportion of their income on medical costs

than they did two decades ago (and an even smaller proportion of income on food than at that time). As a result, using a poverty threshold originally derived by multiplying the Economy Food Plan by three (based on data showing that food costs constituted one-third of a family budget in 1959) is likely to understate the amount of income a household needs to subsist at a poverty level today if medical and other non-cash benefits are considered as income.

However, the nine measures of poverty released on October 2 all mix the counting of non-cash benefits with the same poverty threshold that is used in the official definition of poverty and that is based on cash income only.

As a result, the nine measures of poverty issued in October make the poverty population appear unrealistically small. In summary, these measures: 1) count non-cash benefits because they include household purchasing power but fail to exclude taxes that are withheld from earnings and reduce purchasing power; 2) compare income including non-cash benefits to a poverty threshold based on cash income only; and 3) in the case of the two measures showing the lowest numbers of people in poverty, assign such high values to Medicare and Medicaid that many of the elderly poor are considered to be above the poverty line, even if they virutally no income for other necessities.

It should be noted that in 1983, the Census Bureau prepared for the House Ways and Means Committee some estimates of the poverty population if non-cash food and housing benefits (but not medical benefits) are counted as income, and after-tax rather than pre-tax earnings are used. The Census data showed that when poverty is measured in this more realistic fashion, the number of persons in poverty is <u>not</u> appreciably different from the number of poor people under the official definition of poverty.

<u>Number of Persons Below the Poverty Level and Poverty Rates for 1983</u>

	Number	Poverty Rate
Official poverty definition (money income only)	35,266,000	15.2%
Money income, food stamps and subsidized housing less federal and state income taxes and payroll taxes	35,126,000	15.2%

Source: Bureau of the Census
U.S. Department of Commerce

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Table 1: Number of Persons in Poverty Using Different Definitions of Non-Cash Income, 1979-1985

	1979	1985	Increase	Percentage Change
	(in thousands of persons)			
Current Poverty Definition	26,072	33,064	6,992	26.8%
Valuing Food and and Housing Only				
Market Value	21,698	29,489	7,791	35.9%
Recipient Value	22,270	30,351	8,081	36.3%
Poverty Budget Share	22,409	29,769	7,360	32.8%
Valuing Food, Housing and All Medical Benefits				
Market Value	15,099	21,521	6,422	42.5%
Recipient Value	20,152	27,995	7,843	38.9%
Poverty Budget Share	20,184	27,506	7,322	36.3%
Valuing Food, Housing and Medical Benefits, Excluding Institutional Expenditures				
Market Value	15,696	21,941	6,245	39.8%
Recipient Value	20,478	28,281	7,803	38.1%
Poverty Budget Share	20,186	27,506	7,320	36.3%

Table 2: Change in Poverty Rate Using Different Definitions of Non-Cash Income, 1979-1985

	1979	1985	Percentage Increase
Current Poverty Definition	11.7%	14.0%	19.7%
Valuing Food and and Housing Only			
Market Value	9.7%	12.5%	28.9%
Recipient Value	10.0%	12.8%	28.0%
Poverty Budget Share	10.1%	12.6%	24.8%
Valuing Food, Housing and All Medical Benefits			
Market Value	6.8%	9.1%	33.8%
Recipient Value	9.0%	11.8%	31.1%
Poverty Budget Share	9.1%	11.6%	27.5%
Valuing Food, Housing and Medical Benefits, Excluding Institutional Expenditures			
Market Value	7.0%	9.3%	32.9%
Recipient Value	9.2%	12.0%	30.4%
Poverty Budget Share	9.1%	11.6%	27.5%

Table 3: Number of Persons Below the Poverty Level and Poverty Rates by Selected Income Concepts: 1983

(Numbers in thousands)

Income Concept[1]	Number	Poverty rate
Money income only	35,266	15.2
Money income and food stamps	33,997	14.7
Money income, food stamps, and public housing	32,675	14.1
Money income less Federal and state income taxes and payroll taxes	37,837	16.3
Money income less Federal and state income taxes and payroll taxes (without EITC)	38,141	16.5
Money income, food stamps, and public housing less Federal and state income taxes and payroll taxes	35,126	15.2
Money income, food stamps, and public housing less Federal and state income taxes and payroll taxes (without EITC)	35,512	15.3

[1]Estimates based on the market value of food stamps and public housing.

SOURCE: CURRENT POPULATION SURVEY
Bureau of the Census
U.S. Department of Commerce
Washington, D.C. 20233

COUNTING MEDICAL BENEFITS AS INCOME

When non-cash benefits are counted as income, the major impact on poverty rates comes from counting Medicare and Medicaid. Counting food stamps and housing benefits has some impact on poverty rates, but this impact is dwarfed by the much larger impact of counting the benefits of the medical programs. (Moreover, counting food and housing benefits results in only modest changes in the relative poverty rates of the elderly and non-elderly population. It is only when the medical benefits are counted that major shifts in relative poverty rates of the elderly and non-elderly occur.)

Yet placing a dollar value on medical benefits is controversial. For example, the market value method of measuring poverty derives a dollar value for Medicare and Medicaid by dividing total annual Medicare and Medicaid expenditures for each category of persons (such as the elderly) in each state by the number of such persons in each state covered under these programs. The result -- the average amount that Medicare and Medicaid pay to health care providers for each such beneficiary in a state -- is counted as though it were income available to these beneficiaries. In other words, each such beneficiary is assumed to have, as income, the average per beneficiary amount which Medicare and Medicaid pay to doctors, hospitals, laboratories, and other providers each year.

As is well known, health care costs have escalated dramatically in recent years. If the average per person cost of medical benefits is attributed to low income families and individuals as income, then each advance in medical technology that produces new treatments at higher costs has the ironic result of reducing poverty. This is especially true for the elderly. Medical treatments are now able to keep large numbers of elderly alive for longer periods at very high costs (especially in the last year of life). Under the computation methods used to measure medical benefits at "market value," the high costs of these medical treatments make the elderly appear less poor.

To a certain extent, this method of measuring poverty amounts to stating that the sicker a low income population group is (and the more costly the health care the group is provided), the less poor the group should be considered.

Since the elderly are sicker and incur much higher medical costs than do other groups, the elderly are regarded as having much less poverty than the other groups when medical benefits are counted and the market value approach is used. (Moreover, while the higher medical benefits paid on behalf of the elderly are counted as income under this approach, the higher medical costs that these benefits must cover are entirely ignored. Despite Medicare and Medicaid, out-of-pocket health care costs still consume twice as large a percentage of the total expenditures of elderly people as of the general population.)

The Census Bureau has issued cautions about the problems with this method of computing poverty rates. The Census Bureau has pointed out that under this approach, the Medicare/Medicaid value in some states approaches or exceeds the poverty level. Elderly persons with little or no cash

income are correspondingly considered to be above the poverty line in some states, as long as they have Medicare and Medicaid coverage.

In New York state, for example, Medicare and Medicaid coverage were valued under this approach at $4,508 per elderly person in 1984. In other words, elderly persons in New York were each considered to have the equivalent of $4,500 by virtue of having Medicare and Medicaid coverage.

Since the poverty line was only $4,974 for an elderly person living alone in 1984, however, this means that an elderly person living alone in New York City on just $39 a month would be considered to be above the poverty line that year. People having only $39 a month for rent, utilities, food (including the value of any food stamps, which would be counted against the $39 limit), clothing, transportation, and other needs, would no longer be considered poor.

For elderly couples in New York, the situation would be even more illogical. An elderly couple with no cash income whatsoever, and nothing more than Medicare and Medicaid coverage, would be considered to be $2,700 above the poverty line -- since the couple's Medicare and Medicaid coverage would be considered as giving it $9,000 in income. The couple could be penniless and homeless, but it would be considered to have an income nearly 1-1/2 times the poverty level.

Nor is this situation limited to New York. Census data show that there are five states where every elderly couple in the state receiving Medicare and Medicaid would automatically be considered to be above the poverty level. Even more important, in numerous states all across the country, elderly persons would be brought close to the poverty level by virtue of having Medicare and Medicaid coverage alone, so that even a small amount of cash income or additional benefits would be considered sufficient to lift them out of poverty.

Indeed, the national average amount of "income" attributed to elderly persons with Medicare and Medicaid coverage under this approach was $2,688 for an elderly individual in 1984 and $5,376 for an elderly couple. These amounts equal 54 percent of the 1984 poverty level for an elderly person living alone and 86 percent of the poverty level for an elderly couple.

As a result, the average elderly couple in the U.S. with just $76 a month for rent utilities, food, out-of-pocket medical costs, and all other expenses, would not be counted as poor under this approach. Similarly, the average elderly person living alone on $191 a month would be considered to be above the poverty level.

(These are only some of the serious difficulties that can arise from valuing medical benefits and counting them as income. Still other problems arise when poverty rates are recomputed based on medical benefits, and then cited in efforts to show that the elderly are much better off than other age groups. Under such a comparison, the value of Medicare and Medicaid is counted as income -- while the value of employer-provided health benefits, which cover a number of non-elderly working poor families, is simply ignored. The incomes of the elderly are thereby made artificially to appear higher than those of the working population.)